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UNCLAS SECTION 01 OF 03 PHNOM PENH 000926

SIPDIS

SENSITIVE
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DEPT FOR EAP ASSISTANT SECRETARY CHRISTOPHER HILL
DEPT FOR F, EAP/MLS, EAP/CM--JOY YAMAMOTO, EAP/RSP,
EEB/IFD, EB/TPP/MTA/ANA--TED SAEGER, AND OES--JEFF MIOTKE
AND ANN COVINGTON,
PLEASE PASS TO USAID FOR ANE--KIMBERLY ROSEN

E.O. 12958: N/A

TAGS: [EAID](#) [PREL](#) [ECON](#) [PGOV](#) [CB](#) [CH](#)

SUBJECT: ENCOURAGING CHINESE ENGAGEMENT WITH CAMBODIA'S
DONORS

11. (U) This is an action request. Please see paragraph 13.

12. (SBU) Summary: China's economic influence in Cambodia is immense and growing. Already Cambodia's largest donor and foreign investor, China's aid comes with no overt conditions and often serves to build infrastructure used to ship Cambodia's natural resources to China's insatiable factories.

Prime Minister Hun Sen frequently seizes on China's "no strings attached" attitude to criticize other donors who seek to tie aid to political and economic reforms--rather than the Chinese model of just tying assistance to greater and easier access to natural resources. China's persistent refusal to engage with other donors in Cambodia undermines the efforts of all donors to promote accountability and progress on Cambodia's toughest governance challenges. A number of ASEAN missions openly worry about China's increasing influence and the Japanese especially complain about China's "no strings" assistance. Post requests that the Department via Embassy Beijing encourage China to participate in donor coordination efforts. End Summary.

China: The (Economic) Elephant in the Room

13. (U) Since the 1950s, China has been cultivating a cozy relationship with a succession of Cambodian leaders, providing support to King Sihanouk, the Khmer Rouge, and PM Hun Sen, and often using foreign aid as a major tool in promoting closer ties. In 1997, when CPP-FUNCINPEC fighting caused Western donors to temporarily suspend their aid, China rushed to Cambodia's rescue with a USD 10 million loan and, six months afterwards, provided USD 2.8 million in military equipment. One academic claims that Beijing provides more non-military aid to Cambodia than any other country does, having spent USD 2 billion since the 1970s to build roads, bridges, and offices. Although much of this money is in the form of loans, these debts are often canceled at maturity. China is also Cambodia's largest provider of military aid.

14. (U) In addition to foreign assistance ties, Cambodia and China also boast a strong commercial relationship. Since 2004, China has been the top foreign investor in Cambodia, and in 2006, a Chinese firm made history with the largest foreign investment project in Cambodia yet: a USD 280 million, 193-megawatt hydropower station. China also has a heavy presence in Cambodia's critical garment sector, and Chinese oil firm CNOOC has reportedly been in talks with the Cambodian government over exploration rights off the Cambodian coast. Chinese-Cambodian trade is growing quickly;

total trade between the two countries tops USD 1.4 billion.

¶15. (U) Yet China's commercial interests in Cambodia often have a seamy underbelly. Many of the companies involved in logging Cambodia's remaining forests are Chinese-owned or Cambodian-Chinese joint ventures, including two of the most notorious companies holding the country's largest concessions: Wuzhishan and Pheapimex. In 2004, Chinese firm Green Rich was accused of logging in a national park and wildlife sanctuary.

What's In It for China?

¶16. (U) All of this Chinese involvement has paid off in terms of access to Cambodian natural resources and political support. Much of the foreign aid received by Cambodia goes to build ports, bridges, and roads that facilitate the movement of natural resources like trees and minerals from Cambodia to China's insatiable factories.

¶17. (U) Cambodia has also become, in the eyes of one scholar, "one of China's closest friends in Southeast Asia, second only to Burma." Cambodia strongly condemned the accidental 1999 NATO bombing of the Chinese embassy in Belgrade. In 2002, Cambodia refused to issue a visa to the Dalai Lama and clamped down on the Falun Gong spiritual movement here. Hun Sen has visited China six times since 1997 (often returning with bilateral agreements and aid pledges) and King Sihamoni chose China for his first official visit as head of state. The presence of an estimated 350,000 ethnic Chinese Cambodian citizens and the recent migration of 50,000 to 300,000 Chinese to Cambodia further strengthens ties between the two countries.

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China's Aid: No (Reform) Strings Attached, No Coordination Necessary

¶18. (U) China's aid and investment in Cambodia dwarfs what most other donors can offer, and is only growing. In April 2006, Chinese Premier Wen Jiabao took Chinese involvement to a new level, announcing USD 600 million in foreign assistance for Cambodia, including the construction of two bridges, a hydropower project, electric transmission lines, and a new Council of Ministers building. (Comment: China is often vague about the time period over which announced aid will be disbursed, and is thought to re-announce the same aid programs, making it seem as if they are giving more than they actually are. In addition, China brings its own equipment and laborers, making its aid relatively inefficient compared to donors who use locally supplied equipment and laborers. End Comment.) Wen Jiabao and Hun Sen signed 11 bilateral agreements during the Premier's two-day visit to Cambodia, covering everything from transnational crime to establishing a national botanical garden. In contrast, Western countries, international aid agencies, and Japan collectively pledged USD 601 million in 2006 assistance for Cambodia.

¶19. (U) Even more disturbing for Western donors, China's aid comes with few requirements related to political or economic reform and no effort at coordinating with other donors. Prime Minister Hun Sen delights in lauding the lax Chinese approach. He has praised China for honoring Cambodia's "independence and integrity," described the country as "Cambodia's most trustworthy friend," and told the press "China talks less (than other donors) but does a lot."

Getting China to Play Ball with Other Donors

¶10. (U) The Government's Action Plan on Harmonization, Alignment and Results (2006-2010) commits both the Cambodian government and donors to ensuring that all sector plans and

development programs/projects in Cambodia are coordinated and achieve targeted development results. There is general acknowledgment that the government-donor consultative process and coordination structure, including the Cambodia Development Cooperation Forum (CDCF), the Government Donor Coordination Committee (GDCC), and Technical Working Groups (TWGs) have resulted in better understanding and coordination among donors and the RGC.

¶11. (SBU) Dialogue between all actors has been maintained through TWGs established in 18 sectors and thematic areas. It is their role to facilitate coordination and technical-level discussions. China is noticeably absent from the dialogue, and its participation would be a major improvement in the process. Furthermore, without China's involvement, development of a regional perspective on aid effectiveness and coordination is impossible. As a possible first step, it would seem particularly appropriate for China to participate in the "Infrastructure and Regional Integration" TWG.

¶12. (SBU) Various donors have urged the Chinese Ambassador to Cambodia to participate in donor meetings, but with little success. She is either not interested in participating or feels that she lacks the authority to overturn China's historically distant relationship with other donors. Even the Cambodians have called for greater coordination, inviting the Chinese to attend this year's CDCF meeting, held June 19-20 (septel), and requesting that China announce its foreign aid pledge with the other donors. China's level of participation in this year's meeting was minimal, with one diplomat telling us that a Chinese embassy official--though not the Ambassador herself--attended this year's CDCF meeting but said nothing, while the Cambodian Finance Minister told the press that no Chinese representatives attended. The Chinese did include their foreign aid pledge in the official tally for the first time: more than USD 90 million from the Chinese, making them Cambodia's second largest donor (after Japan) and exceeding US assistance levels by nearly 50%.

¶13. (SBU) ACTION REQUEST: Given the critical and growing importance of China's foreign assistance engagement with Cambodia, and the strong pull and often negative consequences of China's commercial interests in Cambodia, post recommends the Department engage China on this matter, encouraging China to work with other donors at as many levels as possible--from

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Technical Working Groups to the high-level Cambodia Development Cooperation Forums. End Action Request.
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